inter-city gas limited annual report for the year 1970

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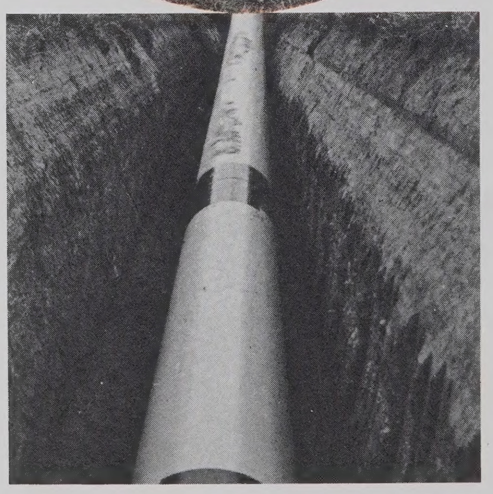
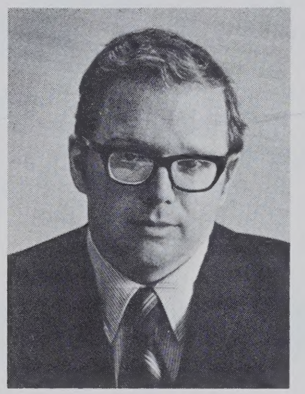
highlights

	1970	1969	Percent Change
For the Year			
Revenue	$ 13,319,134	$ 10,683,904	+ 24%
Net Income	676,382	558,871	+ 21%
Per Common Share	.71	.53	+ 33%
Dividend Rate Per Common Share	.25	.20	+ 25%
At Year End			
Long Term Debt	12,585,541	8,458,437	+ 49%
Shareholders' Equity	7,576,837	7,339,381	+ 3%
Total Assets	29,190,628	20,698,221	+ 41%



president's message



R. G. Graham

We are pleased to report 1970 net earnings of 71c per Common Share representing a 33% increase over 1969. This increase was realized on revenues of $13,319,000 compared with 1969 revenues of $10,683,000.

The Company increased the Common Share dividend paid during 1970 to 25c per Common Share and paid the regular dividends on the Preference Shares.

In planning for the future growth of your company we recognize that our broad sphere of commercial interest is in the energy industry with particular emphasis on natural gas. Three areas of interest are currently being developed.

(1) *The transportation and marketing of natural gas through pipeline systems* – This area includes the development and operation of utility distribution systems, transmission lines, and gathering systems. We will continue to search for opportunities to expand in this area through development of new geographic areas and corporate acquisition. The new pipeline project serving Fort Frances and International Falls as outlined in this report is a good example of this kind of opportunity. Notwithstanding new geographic areas our present service area still offers significant undeveloped markets.

(2) *The manufacture and distribution of utilization equipment.*
The equipment required to convert energy into usable heat is an integral part of our industry and we are developing a significant interest in the manufacture and sale of heating equipment using natural gas, oil and electricity.

(3) *The discovery and development of natural gas and oil resources.*
The whole energy industry is dependent on the development of our natural resources. The discovery and development of natural gas and oil is of primary importance in our economy, particularly when faced with a rapidly developing continental energy shortage. We are presently pursuing a realistic role in this area.

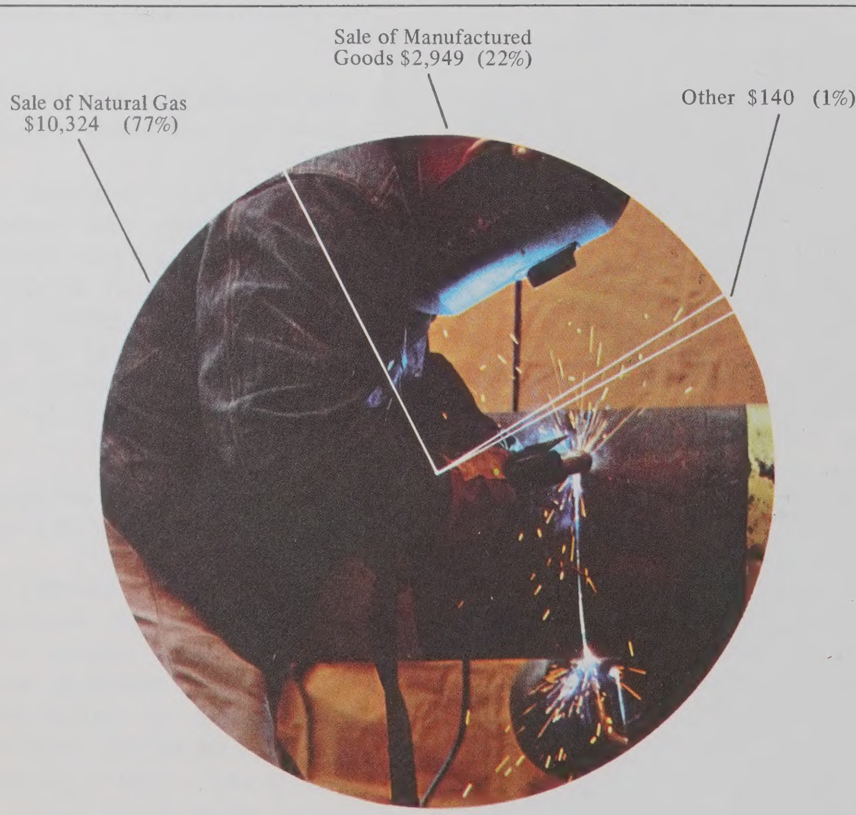
New Pipeline - Constructed and Financed

During the past fall we completed the construction of a 160-mile pipeline to serve the Boise Cascade Corporation complex at International Falls, Minnesota and Fort Frances, Ontario together with the residential and commercial customers in eight communities along the route of the line. This new pipeline was built in four months, after receiving the required approvals from the National Energy Board, Federal Power Commission, and the Ontario Energy Board. In order to export gas across the international border we required the passage of a special act by the House of Commons and Senate of Canada incorporating a new Canadian pipe line company. Gas was turned on at the Boise Cascade plant in Fort Frances on December 15th and in International Falls on December 30th. Accordingly, none of our increased revenue in 1970 is attributable to this new pipeline. We have obtained the necessary franchises and during the summer of 1971 we plan to install the distribution systems in several communities along the pipeline. Photographs used throughout this report were taken during the construction of the line. When in full operation (within three years) this new pipeline project will produce revenue in excess of $5,000,000 per year.

The cost of the main transmission pipeline as at December 31st, 1970 was $7,251,000.

The project is financed with a $4,500,000 9½% First Mortgage Bond and a three year term note bearing a fluctuating interest rate equivalent to 1½% over the prime Canadian bank lending rate. This funded debt is accompanied by warrants to purchase 150,000 Common Shares at $7.50 per share for 15 years. Other than this long term call on shares, no additional equity must be issued to finance this project. It was necessary to arrange this financing in February of 1969 during the period when our economy was experiencing high interest rates and a significant shortage of investment funds. It is interesting to note that the same institution involved in this transaction purchased our bonds at an 8% rate without any warrants in 1969.

Because our main line to Fort Frances and International Falls runs through Manitoba, Minnesota, and Ontario and back into Minnesota, a number of new companies were required. The pipeline in Canada is owned by ICG Transmission Ltd. and in Minnesota by Inter-City Minnesota Pipelines Ltd. Both of these companies are wholly-owned subsidiaries of Inter-City Pipelines Ltd. which in turn is a wholly-owned subsidiary of Inter-City Gas Limited.



Source of the Revenue Dollar
(In thousands of Dollars)

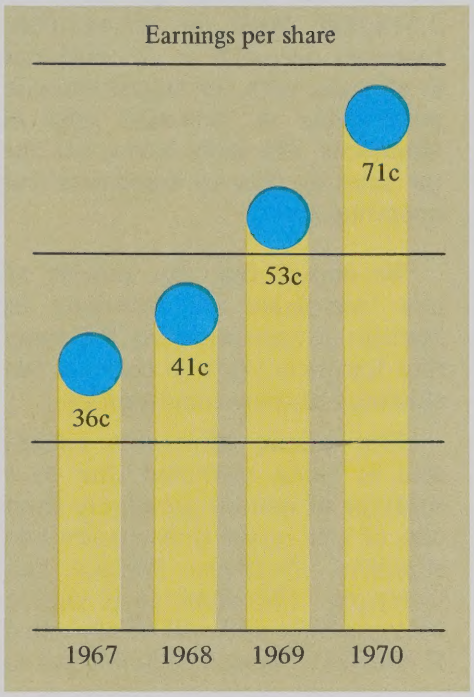
Manufacturing Division

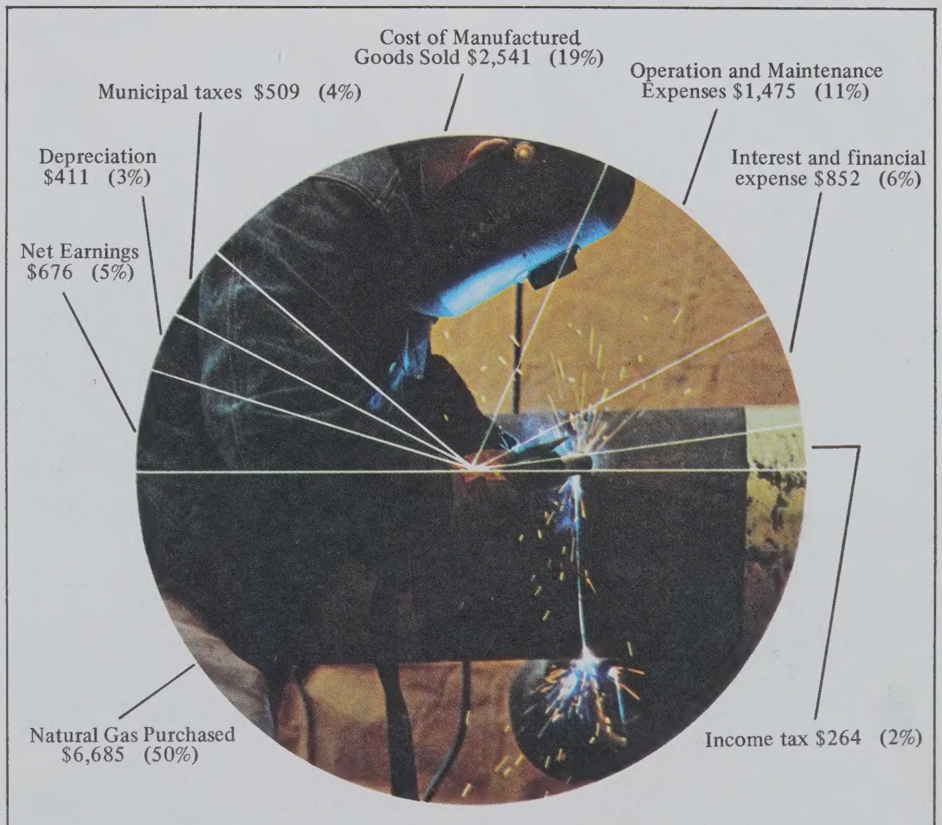
The past year in the equipment manufacturing business was planned to stress internal reorganization and development. Our development of a long term program in the manufacturing division was accomplished at the expense of current earnings. Consolidated earnings include a manufacturing loss of $41,008, however, we have now taken most of the steps necessary to make our equipment manufacturing division a rewarding operation. Included in our plans is a doubling of productivity and in January, 1971 we acquired the net assets of Furnasman (Furnace) Ltd. of Winnipeg. After March, 1971 the furnace operations of Bulloch's Limited and Furnasman (Furnace) Ltd. will be combined in a single factory. It is our plan to manufacture and distribute approximately 20,000 furnaces in 1971 in the British Columbia, Alberta, Saskatchewan, Manitoba and western Ontario market areas. Our new corporate arrangement in the equipment field is made up of three companies:

(1) A wholly-owned subsidiary named Inter-City Manufacturing Limited which is the former Bulloch's Limited plus the assets of Furnasman (Furnace) Ltd. This company will manufacture a complete line of domestic heating equipment and related products.

(2) A new subsidiary of Inter-City Manufacturing Limited named Bulloch's Supply Ltd. This company will act as a distributor to the heating trade. It is the former sales division of Bulloch's and will service approximately 600 dealers, mostly in western Canada.

(3) A 51% interest (to be 100% in four years) in Furnasman Supply Ltd. which is an operation somewhat similar to Bulloch's Supply Ltd. concentrating in British Columbia and Alberta.





Use of the Revenue Dollar
(In thousands of Dollars)

Utility Operations

In addition to the new pipeline mentioned above we added new utility plant in 1970 of $473,000 in Minnesota and $213,600 in Manitoba. In 1970 we were able to increase our natural gas sales by 3,518,000 MCF or $2,183,000. Increases occurred in all categories in all areas with the largest increase attributable to industrial sales in Minnesota. The table below sets out the sales by class of customers and operating area.

We expect that the number of new customers will continue to increase at approximately this same rate for some years to come in the existing franchise communities.

The existing Minnesota market area is being restricted due to a shortage of natural gas supply from one of our major transmission line suppliers, Northern Natural Gas Company. This shortage is said to be temporary and will be alleviated if Northern Natural's application to export additional supplies now before the National Energy Board is approved. Due to the natural gas shortage we do not expect to add any new towns in Northern Minnesota in 1971 other than those on our own pipeline. We are, however, continuing to investigate expansion opportunities in other areas. The new communities to be served on our own new pipeline will offer an added potential of 6,400 new customers. Gas for this area is supplied from TransCanada Pipelines Limited through our own facilities and the gas shortage referred to above does not apply to this area.

Our long term gas supply contracts now give us the following quantities of natural gas:

	cubic feet per day
TransCanada Pipelines Limited	61,225,000
Northern Natural Gas Company	23,247,000
Midwestern Gas Transmission Company	4,308,000
Great Lakes Transmission Company	13,000,000
TOTAL	101,780,000

	Manitoba		Minnesota		Combined	
	1970	% Increase Over 1969	1970	% Increase Over 1969	1970	% Increase Over 1969
Customers						
Residential	8,623	9.6%	8,913	12.9%	17,536	11.2%
Commercial	1,606	7.0%	1,221	14.1%	2,827	10.0%
Interruptible	–	–	197	1.0%	197	1.0%
Large Contract	52	18.2%	17	–	69	13.1%
Total	10,281	9.2%	10,348	10.7%	20,629	11.0%
MCF Sales						
Residential	1,395,379	12.1%	1,346,427	16.0%	2,741,806	14.0%
Commerical	1,157,429	14.9%	672,002	30.0%	1,829,431	20.0%
Interruptible	–	–	729,106	(.2%)	729,106	(.2%)
Large Contract	1,414,116	7.0%	9,672,718	40.4%	11,086,834	35.1%
Total	3,966,924	11.0%	12,420,253	33.6%	16,387,177	27.3%
Revenue						
Residential	1,294,460	11.0%	1,836,020	18.4%	3,203,920	12.9%
Commerical	913,194	10.6%	693,120	28.1%	1,634,038	16.0%
Interruptible	–	–	452,496	2.8%	470,595	(.8%)
Large Contract	724,311	4.1%	4,088,731	64.2%	4,976,591	47.2%
Total	2,931,965	9.1%	7,070,367	40.8%	10,285,144	27.0%

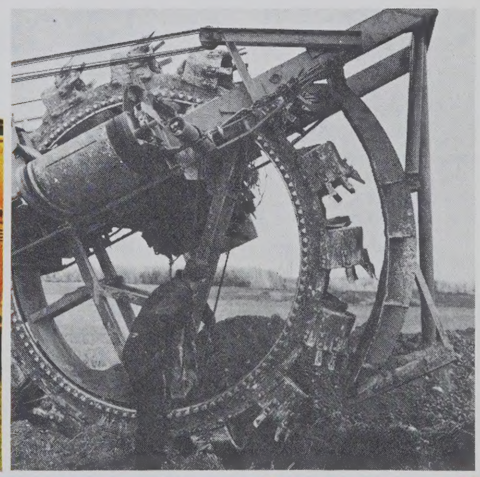
Gas Exploration and Development

We have recently concluded agreements involving exploring for and developing of natural gas and oil resources. Our agreement provides for an investment of $550,000 for which our company has acquired a one-half interest in approximately 50,000 acres in the Lac La Biche area of Alberta and is guaranteed delivery of 25,000,000,000 cubic feet of natural gas from a designated area within these 50,000 acres. There are presently 13 wells on the site. Although one of these wells is presently in service annual deliveries are minimal and the remaining 12 wells are capped pending the outcome of a further development program intended to prove additional reserves.

We have committed a further minimum investment of $600,000 to be expended over the course of the next three years in a joint exploration program. This expenditure will include further development of the Lac La Biche area. Our company will have a call on all gas reserves developed throughout the course of the joint exploration program. Bearing in mind the relatively high degree of risk attendant to such ventures, it is a feature of our exploration agreement that the potential loss to the company will be significantly limited should the exploration program be unsuccessful. In combination with the tax abatement provision of the income tax act this feature of our agreement offers an unusually attractive opportunity to participate in this vital facet of our industry.

On behalf of the board of directors,

President



10 year summary

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Year End Customers										
Residential	17,536	16,410	15,381	14,679	10,977	5,668	4,705	4,163	3,656	3,256
Commercial	2,827	2,671	2,493	2,370	1,730	1,063	881	769	713	628
Industrial	41	38	37	33	30	26	27	26	-	-
Interruptible	197	197	190	191	111	-	-	-	-	-
Large Contract	28	25	25	24	18	9	8	7	6	5
Total	20,629	19,341	18,126	17,297	12,866	6,766	5,621	4,965	4,375	3,889
Potential Customers Facing Mains	34,880	34,518	34,003	34,819	29,241	12,902	8,317	6,956	6,602	6,091
MCF's Sales										
Residential	2,741,806	2,405,084	2,295,167	2,030,843	1,506,010	843,864	687,695	577,494	541,588	458,221
Commerical	1,829,431	1,524,522	1,387,853	1,285,689	881,912	589,278	478,406	403,764	428,901	349,163
Industrial	120,345	103,227	98,680	94,575	81,890	72,459	64,062	52,997	-	-
Interruptible	729,106	730,629	659,573	393,774	249,681	-	-	-	-	-
Special	10,966,489	8,105,189	8,857,280	6,860,361	6,983,967	1,047,478	962,949	894,197	864,707	802,697
Total	16,387,177	12,868,651	13,298,553	10,665,242	9,703,460	2,553,079	2,193,112	1,928,452	1,835,196	1,610,081
Degree Day Deficiency	10,394	10,185	9,853	10,920	11,059	11,505	10,887	10,080	10,887	10,179
Total Contracted Demand - MCF's	101,780	64,117	46,813	41,988	37,903	20,700	17,900	16,500	15,900	15,300
Average Use per Customer (Note 1) - MCF's										
Residential	161.3	152.5	158.4	154.1	151.2	171.0	158.7	151.9	161.2	152.6
Commerical	659.3	592.9	487.5	593.3	573.0	638.1	592.1	564.4	647.5	593.3
Gas Revenue - $										
Residential	3,203,920	2,838,125	2,532,214	2,311,799	1,714,506	721,848	601,361	508,351	471,428	397,073
Commercial	1,634,038	1,408,744	1,268,654	1,123,854	865,011	433,941	355,708	299,442	312,362	252,175
Industrial	93,539	72,095	66,598	66,165	54,879	48,859	42,746	35,403	-	-
Interruptible	470,595	474,517	422,251	276,339	162,292	-	-	-	-	-
Large Contract	4,883,052	3,308,234	3,225,848	2,653,590	2,442,494	564,198	508,970	471,185	450,601	423,492
Total	10,285,144	8,101,715	7,515,565	6,431,747	5,239,182	1,768,846	1,508,785	1,314,381	1,234,391	1,072,740
Average Revenue Per MCF										
Residential	$1.169	$1.180	$1.103	$1.138	$1.138	$ .855	$ .875	$ .880	$ .870	$ .867
Commercial	.893	.924	.914	.874	.981	.737	.744	.729	.728	.722
Industrial	.778	.698	.675	.700	.671	.674	.667	.668	-	-
Interruptible	.645	.649	.640	.702	.650	-	-	-	-	-
Large Contract	.445	.408	.364	.421	.350	.539	.529	.527	.521	.528
Total	.628	.630	.565	.603	.540	.693	.688	.682	.673	.666

Note: 1) Average use per customer is based upon the effective number of customers serviced during the year.
2) Revenue from sale of natural gas includes deferred payment penalties.

* Includes revenue from sale of propane in the amount of $300,179.

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Plant - $										
Utility	25,505,143	17,266,956	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038	3,530,536	3,345,521	3,155,532
Manufacturing	598,024	572,938	-	-	-	-	-	-	-	-
Total	26,103,167	17,839,894	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038	3,530,536	3,345,521	3,155,532
Revenue - $										
Sale of natural gas (Note 2)	10,323,562	8,134,631	7,547,235	6,459,562	5,539,203	1,768,846	1,508,785	1,314,381	1,234,391	1,072,740
Sale of manufactured goods	2,948,818	2,499,923	-	-	-	-	-	-	-	-
Rental & finance plan income	46,754	49,350	46,871	31,345	63,181	5,087	1,179	856	190	86
Total	13,319,134	10,683,904	7,594,106	6,490,907	5,602,384	1,773,933	1,509,964	1,315,237	1,234,581	1,072,826
Expenses										
Natural gas purchased	6,684,504	5,104,157	4,903,122	4,010,281	3,593,767	967,915	836,947	710,430	690,800	608,525
Cost of manufactured goods sold	2,541,428	2,013,251	-	-	-	-	-	-	-	-
Operation & maintenance	1,474,654	1,320,482	848,043	812,035	706,496	197,398	170,156	165,048	166,485	165,240
Municipal taxes	508,993	492,359	453,296	375,799	302,591	64,946	62,296	47,377	41,263	35,627
Depreciation	410,490	371,372	329,770	292,390	290,370	113,003	98,038	92,821	84,366	78,990
Total	11,620,069	9,301,621	6,534,231	5,490,505	4,893,224	1,343,262	1,167,437	1,015,676	982,914	888,382
	1,699,065	1,382,283	1,059,875	1,000,402	709,160	430,671	342,527	299,561	251,667	184,444
Other Income	84,061	44,653	112,477	63,564	86,221	22,073	780	13,085	17,935	21,254
	1,783,126	1,426,936	1,172,352	1,063,966	795,381	452,744	343,307	312,646	269,602	205,698
Income Deductions										
Interest on funded debt	595,197	434,682	368,582	360,561	283,113	132,334	98,750	101,844	89,175	76,688
Other interest	228,173	294,671	303,101	228,755	148,201	27,898	14,764	1,830	8,766	9,288
Amortization of financing expenses	28,444	23,136	31,493	33,480	28,682	10,029	9,246	9,246	8,595	6,320
Interest charged to construction	(9,360)	(13,538)	(17,182)	(19,145)	(16,166)	(52,983)	(10,944)	(1,499)	(4,437)	(2,264)
	842,454	738,951	685,994	603,651	443,830	117,278	111,816	111,421	102,099	90,032
	940,672	687,985	486,358	460,315	351,551	335,466	231,491	201,225	167,503	115,666
Provision for Income Taxes	264,290	98,841	10,986	10,264	7,700	3,632	17,581	49,019	38,300	7,909
	676,382	589,144	475,372	450,051	343,851	331,834	213,910	152,206	129,203	107,757
Minority Interest	-	30,273	1,043	1,874	1,388	-	-	-	-	-
Consolidated Net Income for the Year	676,382	558,871	474,329	448,177	342,463	331,834	213,910	152,206	129,203	107,757
Dividends Paid										
Preferred Shares	220,557	226,394	229,750	229,750	73,500	-	-	-	-	-
Common Shares	158,269	124,354	119,330	119,330	119,330	109,387	99,442	87,012	74,582	35,941
Earnings per Common Share	$ .71	$ .53	$ .41	$ .36	$ .45	$ .55	$ .43	$ .30	$ .26	$ .22


Manitoba
WINNIPEG
PORTAGE LA PRAIRIE
North Dakota
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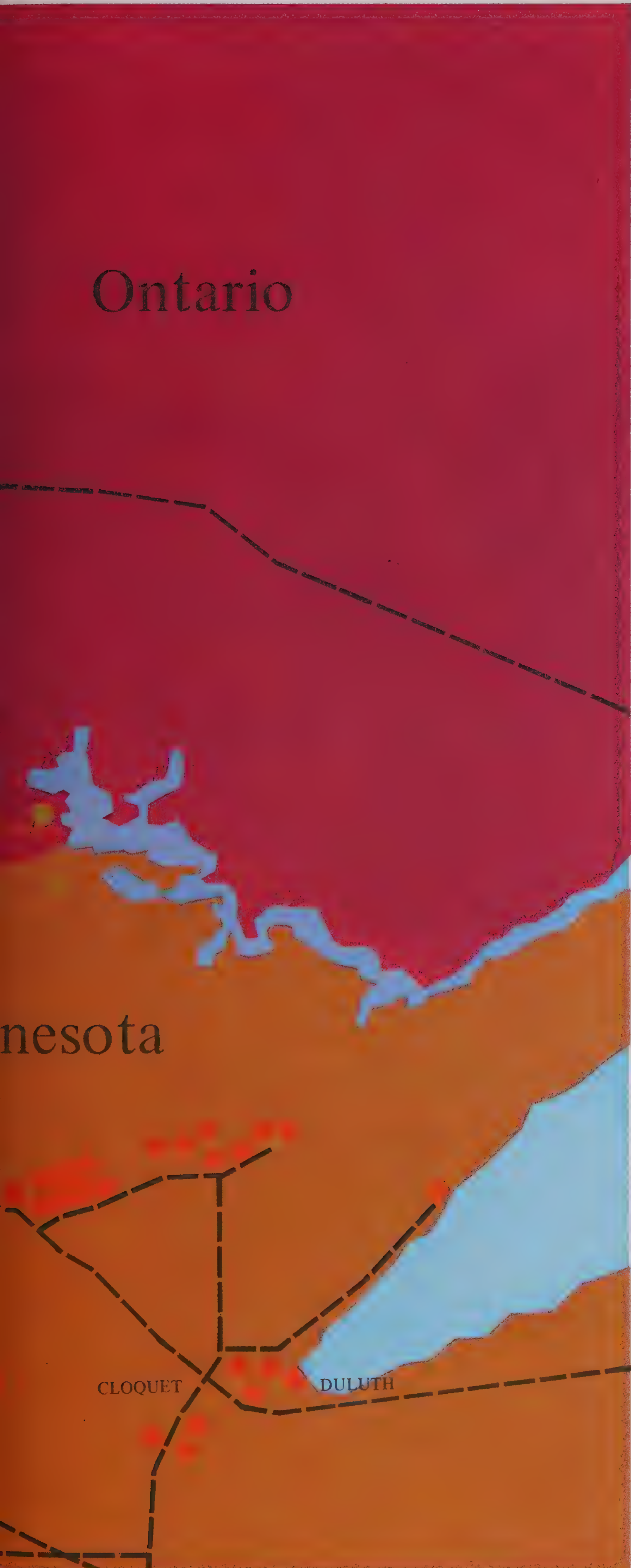

inter-city gas limited growing community service

Manitoba

Binscarth
C.J.A.T.C., Rivers
Dauphin
Gilbert Plains
Grandview
Grunthal
Hamiota
Inglis
MacGregor
Miniota
Minnedosa
Neepawa
New Bothwell
Niverville
Portage la Prairie
Rivers
Roblin
Russell
Ste. Anne
St. Claude
St. Lazare
St. Pierre
Shilo
Steinbach
Virden

Minnesota

Aurora
Barnum
Bertha
Biwabik
Bovey
Buhl
Calumet
Carlton
Chisholm
Cloquet
Coleraine
Crosby
Deerwood
Eveleth
Gilbert
Grand Rapids
Hewitt
Ironton
Keewatin
Kettle River
Marble
Moose Lake
Mountain Iron
Nashwauk
Proctor
Scanlon
Silver Bay
Staples
Thief River Falls
Verndale
Wadena

Present Distribution Systems
Potential Distribution Systems
Transmission Systems
Other Major Gas Pipelines

consolidated balance sheet

as at December 31, 1970

ASSETS	1970	1969
CURRENT ASSETS		
Cash	$ 851,227	$ 490,437
Accounts receivable, less provision for doubtful accounts (Note 1)		
Trade and sundry	2,280,257	2,138,025
Conditional sales contracts	216,027	236,047
Income taxes recoverable	61,436	—
Inventories - at the lower cost or net realizable value	1,221,180	1,335,716
Prepaid expenses	50,398	43,168
	4,680,525	4,243,393
INVESTMENTS - at cost		
Note receivable	256,933	299,411
Other	128,056	51,006
	384,989	350,417
FIXED ASSETS		
Property, plant and equipment - at cost	26,103,167	17,839,894
Accumulated depreciation	2,883,084	2,635,378
	23,220,083	15,204,516
DEFERRED CHARGES - at cost less amortization		
Financing expenses	419,149	429,563
Natural gas market development	273,768	273,188
Other	212,114	197,144
	905,031	899,895
	29,190,628	20,698,221

DIRECTOR

DIRECTOR

SIGNED ON BEHALF OF THE BOARD

LIABILITIES	1970	1969
CURRENT LIABILITIES		
Bank advances (Note 1)	$ 5,469,881	$ 2,457,505
Accounts payable and accrued liabilities	2,538,555	1,741,110
Income taxes payable	310,664	33,278
Deferred income	30,775	33,618
Current portion of funded debt	199,500	149,500
Customers' security deposits	176,127	171,800
	8,725,502	4,586,811
CUSTOMERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	182,315	176,749
FUNDED DEBT (Note 2)	12,585,541	8,458,437
MINORITY INTEREST IN SUBSIDIARY COMPANY	120,433	136,843
	21,613,791	13,358,840
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)		
Authorized -		
143,887 cumulative redeemable first preference shares of the par value of $20 each issuable in series		
292,348 cumulative redeemable second preference shares of the par value of $20 each, issuable in series		
1,000,000 Common shares of no par value		
Issued and fully paid -		
63,887 5¼% Series A First Preference Shares	1,277,740	1,317,260
117,348 6½% Series A Second Preference Shares	2,346,960	2,425,000
643,074 Common Shares	1,911,293	1,821,293
	5,535,993	5,563,553
Excess of book value of net assets at date of acquisition over cost of investment in shares of a subsidiary company	200,939	233,479
Retained Earnings	1,839,905	1,542,349
	7,576,837	7,339,381
	29,190,628	20,698,221

consolidated statement of income

for the year ended December 31, 1970	1970	1969
REVENUE		
Sale of natural gas	$10,323,562	$ 8,134,631
Sale of manufactured goods	2,948,818	2,499,923
Rental and finance plan income	46,754	49,350
	13,319,134	10,683,904
EXPENSES		
Natural gas purchased	6,684,504	5,104,157
Cost of manufactured goods sold	2,541,428	2,013,251
Operation and maintenance	1,474,654	1,320,482
Municipal taxes	508,993	492,359
Depreciation	410,490	371,372
	11,620,069	9,301,621
	1,699,065	1,382,283
OTHER INCOME	84,061	44,653
	1,783,126	1,426,936
INCOME DEDUCTIONS		
Interest on funded debt	609,827	434,682
Other interest	213,543	294,671
Amortization of financing expenses	28,444	23,136
Interest charged to construction	(9,360)	(13,538)
	842,454	738,951
	940,672	687,985
PROVISION FOR INCOME TAXES (Note 4)	264,290	98,841
	676,382	589,144
MINORITY INTEREST	–	30,273
CONSOLIDATED NET INCOME FOR THE YEAR	676,382	558,871
NET INCOME PER COMMON SHARE (Note 8)	$.71	$.53

consolidated statement of source and use of working capital

for the year ended December 31, 1970	1970	1969
SOURCE OF WORKING CAPITAL		
Consolidated net income for the year	$ 676,382	$ 558,871
Items not affecting working capital –	–	–
Depreciation	410,490	371,372
Amortization	74,277	47,448
Minority interest	–	30,273
	1,161,149	1,007,964
Customers' contributions in aid construction	5,566	11,331
Proceeds of issue - 8% First Mortgage Bonds	–	4,041,937
Term Bank Loan	2,300,000	–
Interim Financing	2,026,604	–
Proceeds from investments	55,428	1,825
Proceeds of issue of additional common shares	–	2,160
	5,548,747	5,065,217
USE OF WORKING CAPITAL		
Purchase of fixed assets - net	8,426,057	1,135,817
Redemption of funded debt	199,500	149,500
Dividends paid to shareholders	378,826	350,748
Redemption of preference shares	117,560	115,740
Purchase of shares of subsidiary company	30,085	212,666
Financing and rate-hearing expenses	16,422	180,652
Natural gas market development program	28,323	50,204
Other deferred charges	34,668	–
Dividends paid to minority shareholders	18,865	29,821
	9,250,306	2,225,148
INCREASE (DECREASE) IN WORKING CAPITAL	(3,701,559)	2,840,069
Working capital acquired through purchase of subsidiary company	–	637,551
	(3,701,559)	3,477,620
WORKING CAPITAL DEFICIENCY – BEGINNING OF YEAR	343,418	3,821,038
WORKING CAPITAL DEFICIENCY – END OF YEAR	4,044,977	343,418

consolidated statement of retained earnings

for the year ended December 31, 1970	1970	1969
BALANCE – BEGINNING OF YEAR	$ 1,542,349	$ 1,576,913
Add: Consolidated net income for the year	676,382	558,871
	2,218,731	2,135,784
Deduct: Cost of merging subsidiary companies and corporate reorganization	–	56,678
Adjustment of prior years' depreciation	–	140,703
Write-off of plant costs disallowed for rate base purposes	–	45,306
	–	242,687
	2,218,731	1,893,097
Dividends Paid -		
5¼% Series A First Preference Shares	70,136	72,281
6½% Series A Second Preference Shares	150,421	154,113
Common Shares	158,269	124,354
	378,826	350,748
BALANCE – END OF YEAR	1,839,905	1,542,349

auditor's report to the shareholders

We have examined the consolidated balance sheet of Inter-City Gas Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of income, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

Chartered Accountants

March 8, 1971

1. **BANK ADVANCES**

   Book debts of the parent company and certain subsidiary companies have been pledged as security for bank advances in the amount of $1,683,000.

2. **FUNDED DEBT**

   The details of funded debt of the company and its consolidated subsidiaries are as follows:

	1970		1969	
	Current $	Long-Term $	Current $	Long-Term $
INTER-CITY GAS LIMITED				
Term bank loan, bearing interest at 1½% above bank's prime rate, due March 31, 1975	–	700,000	–	–
7% debenture - Series B maturing 1982	–	1,300,000	–	1,300,000
8% First Mortgage Bonds - Series A maturing 1989	50,000	3,700,000*	–	3,750,000*
INTER-CITY GAS UTILITIES LTD.				
6% First Mortgage Bonds - Series A maturing 1977	37,500	225,000	37,500	262,500
6% First Mortgage Bonds - Series B maturing 1982	25,000	375,000	25,000	400,000
6% First Mortgage Bonds - Series C maturing 1985	57,000	1,872,000	57,000	1,929,000
6¼% debentures - Series A maturing 1979	30,000	495,000	30,000	525,000
INTER-CITY PIPELINES LTD.				
Term bank loan, bearing interest at 1½% above bank's prime rate, due December 31, 1973	–	1,600,000	–	–
Interim financing (Note 6)	–	2,000,000*	–	–
Premium on United States Funds*	–	318,541	–	291,937
	199,500	12,585,541	149,500	8,458,437

Under the provisions of the various indentures, the company is required to make the following sinking fund instalments and term bank loan repayments during the next five years:

Year	$
1971	199,500
1972	299,500
1973	399,500
1974	524,500
1975	524,500
	1,947,500

notes to consolidated financial statements (cont.)

3. CAPITAL STOCK

a) By supplementary letters patent dated May 15, 1970, the company's capital stock was changed as follows:

(i) Effective May 1, 1970 the 6¼% Series A second preference shares have been designated as the 6½% Series A second preference shares.

(ii) The authorized capital of the company was increased by subdividing each common share of no par value, whether issued or unissued, into two shares of no par value so that the authorized capital of the company shall consist of 1,000,000 shares of no par value of which 623,074 of the said shares shall be outstanding as fully paid and non assessable.

b) In 1970 the directors of the company authorized the establishment of a Stock Purchase Plan under which a trust was set up in accordance with Section 27 (2) (c) of The Manitoba Companies Act to purchase fully paid shares of the company, to be held for the benefit of bona fide employees of the company. During the year, the trustees purchased 20,000 common shares in exchange for a promissory note in the amount of $90,000, which is included in the balance sheet with "other investments."

c) The company has reserved 30,000 shares of its authorized but unissued common shares of no par value for issue to employees of the company upon exercise of options. Options have been granted to purchase 23,000 shares at $5.40 per share and 2,000 at $7.20 per share exercisable during the period ending December 1, 1974.

d) The company has reserved a further 177,000 common shares for issue at $8.50 per share on the exercise of share purchase warrants during the period ending October 30, 1973.

e) The company is required by its letters patent to purchase annually in the market within certain limits, 3% of the outstanding 5¼% Series A first preference shares, of which 1,976 were purchased and cancelled during 1970 (1969 - 2,037) and 3% of the outstanding 6½% Series A second preference shares of which 3,902 were purchased and cancelled during 1970 (1969 - 3,750).

4. DEFERRED INCOME TAXES

The Public Utilities Board of Manitoba has directed the company to provide only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes. Although the public utility field in the State of Minnesota is not regulated at the present time, the company has also adopted the taxes payable basis for its financial results arising in that jurisdiction. However, in its manufacturing operations the company has adopted deferred tax accounting.

As a result of claiming for income tax purposes, (a) capital cost allowance in excess of recorded depreciation, (b) interest and overhead amounts recorded as the cost of depreciable assets and (c) financing and development expenses deferred to future periods, income taxes have been reduced and net earnings increased for the year by $185,300 (1969 - $185,800). The accumulated amount by which income taxes have been so reduced to December 31, 1970 is $1,217,300.

5. ACCOUNTING PRINCIPLES

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies. The operating results of Bulloch's Limited have been consolidated from the date of acquisition, April 1, 1969.

The accounts of United States subsidiaries and divisions have been translated to Canadian dollars as follows:

Fixed assets at rates of exchange prevailing on the date of acquisition;
Long-term debt at the rate prevailing on the date of each transaction;
Current assets and liabilities at the rate on the balance sheet date;
Revenues and expenses, at average rates in effect during the relevant period.

The company, through subsidiary companies, was involved during the year in the construction of a natural gas transmission system. At December 31, 1970 the transmission system was fully completed and is deemed to be in service on January 1, 1971.

6. COMMITMENTS

a) The company has entered into an agreement whereby the Travelers Insurance Company will purchase from the company $4,500,000 9½% First Mortgage Bonds due January 1, 1991. A portion of this long-term financing will be used to repay the interim financing of $2,000,000 included in funded debt.

b) The company has entered into an agreement whereby it has agreed to purchase the net assets and operations of Furnasman (Furnace) Ltd. and all the outstanding shares of Furnasman Supply Ltd. The consideration for these acquisitions which is subject to adjustment based on future years' earnings will require a disbursement during 1971 of approximately $400,000.

7. DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration received by directors and senior officers of the company during 1970, in the capacity of director, officer or employee, amounted to $144,456 (1969 - $130,550).

8. INCOME PER COMMON SHARE

The net income per common share has been calculated on the number of shares outstanding to the year end, after applying the stock split of 2 for 1 retroactively to the 1969 fiscal year.

It is estimated that there will be no significant dilution in net income per common share when the conversion of the various stock options and warrants to common shares takes place.

Officers

Robert G. Graham, *President*
N. W. Dubois, *P. Eng., Vice-President*
E. P. Rimmer, *P. Eng., Vice-President*
G. H. Lucas, *Vice-President*
Wayne R. Harding, *C.A., Vice-President*
R. T. Anderson, *Vice-President*
T. D. Bulloch, *Vice-President*

Directors

N. W. Dubois, *Edmonton, Alberta*
Robert G. Graham, *Winnipeg, Manitoba*
Wayne R. Harding, *Winnipeg, Manitoba*
Gordon P. Osler, *Toronto, Ontario*
E. P. Rimmer, *Winnipeg, Manitoba*
Alan Sweatman, *Q.C., Winnipeg, Manitoba*
David B. Weldon, *Toronto, Ontario*
T. D. Bulloch, *Winnipeg, Manitoba*

Solicitors

Thompson, Dewar, Sweatman

Auditors

McDonald, Currie & Co.

Transfer Agent and Registrar

Canada Permanent Trust Company
Winnipeg, Toronto, Calgary and Vancouver

Executive Office

203 Portage Avenue, Winnipeg, Manitoba